Frontal assault versus incremental change: A comparison of collective bargaining in Portugal and the Netherlands

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Abstract

Collective bargaining has come under renewed scrutiny, especially in Southern European countries, which rely predominantly on sectoral bargaining supported by administrative extensions of collective agreements. Following the global financial crisis, some of these countries have implemented substantial reforms in the context of adjustment programmes, seen by some as a 'frontal assault' on collective bargaining. This paper compares the recent top-down reforms in Portugal with the more gradual evolution of the system in the Netherlands. While the Dutch bargaining system shares many of the key features that characterise the Portuguese system, it has shown a much greater ability to adjust to new challenges through concerted social dialogue. This paper shows that the recent reforms in Portugal have brought the system more in line with Dutch practices, including in relation to the degree of flexibility in sectoral collective agreements at the worker and firm levels, the criteria for administrative extensions, and the application of retro- and ultra-activity. However, it remains to be seen to what extent the top-down approach taken in Portugal will change bargaining practices, and importantly, the quality of industrial relations.

Keywords: collective bargaining, bargaining coverage/structure/coordination, trust, comparative economic systems

JEL: D02, JO8, J3, J5, P5

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1. Introduction

Collective bargaining is an important feature of labour markets, especially in Continental Europe where collective agreements (CAs) typically cover more than three quarters of the workforce. Collective bargaining provides voice to workers, and in doing so, has the potential to enhance working conditions, increase productivity, reduce inequality and help minimise industrial conflict (e.g. OECD, 2018). At the same time, collective bargaining has sometimes been associated with wage drift or wage rigidity, with adverse consequences for employment. Downward nominal wage rigidity in particular can be an issue for countries without their own monetary policy that are confronted with an adverse demand shock in a low inflation environment. Collective bargaining also has come under pressure as a result of declining coverage and trade union density (see e.g. OECD, 2017) – partly driven by the expansion of the service sector, individualization, immigration, deregulation, globalisation, and, more recently, the emergence of new forms of work, such as through digital platforms (e.g. Uber).

Traditionally, the policy debate on collective bargaining has tended to concentrate on the *level of bargaining*. An influential view originally proposed by Calmfors and Driffill (1988) held that systems with predominantly sector-level bargaining lead to excessive wage claims relative to productivity. As a result, these systems were thought to be associated with weaker labour market performance than either centralised systems, which provide flexibility at the aggregate level by inducing unions and employer associations to internalise the macro-economic effects of wage claims on economy-wide employment, or decentralised systems, which provide wage flexibility at the firm level. However, it has also long been acknowledged that experiences diverged noticeably even among countries where sector-level bargaining is widespread (OECD, 1997; Traxler et al., 2001; Soskice, 1990). Indeed, the impact of bargaining systems does not only depend on the degree of collective bargaining coverage and the level of negotiation, but also on the specific rules and institutional practices that characterise each system with respect to for example the degree of flexibility for firms and the degree of co-ordination across sectors or firms (OECD, 2017).[i]

Despite work showing that there are many other factors that affect the role of collective bargaining systems for labour market performance, reforms in response to the global financial crisis remained by and large focused on the level of bargaining, and more specifically, ways to increase the prominence of firm-level bargaining. Indeed, the Great Recession and the ensuing surge in unemployment in Southern European countries placed sector-level bargaining – the predominant form of bargaining in these countries – under renewed scrutiny. As in the early work by Calmfors and Driffil (1988), this was seen as a source of wage rigidity, impeding both macro-flexibility (i.e. the ability of the economy to

adjust to macroeconomic shocks) and micro-flexibility (the ability for workers and firms to form the most productive match). Portugal and Greece implemented substantial reforms as part of an adjustment program by the 'troika' that sought to weaken sector-level collective bargaining. Most notably, administrative extension of sectoral agreements - that extend their applicability beyond the membership of the social partners in the sector - was reduced or even suspended and in the case of Greece the principle of favourability abandoned[ii].

Reforms to collective bargaining are by nature controversial, as they can have important implications for the balance of power (and hence bargaining outcomes) both *between* workers and firms, and *within* these two groups. Although in Germany, decentralisation of bargaining has been credited with positive employment effects, there also concerns have been concerns about declining bargaining coverage (Addison *et al.,* 2017), increasing wage inequality and labour market duality (Dustmann *et al*., 2009; Hassel, 2014). Yet, the reforms to collective bargaining system in crisis countries proved particularly contentious. The fact that such reforms were not home-grown but implemented in the context of an adjustment program most likely added to their controversy. According to some, these reforms even constituted a "frontal assault" or "European attack" on collective bargaining (Marginson, 2014; Van Gyes & Schulten, 2015). The sense of attack may partially have resulted from the focus of the reforms on weakening the system of sector-level bargaining at the expense of firm-level or individual bargaining with relatively little attention being paid to ways to improve the functioning of sector-level bargaining systems.

It should be recognised, however, that prior to the crisis it was widely acknowledged that bargaining systems in the Southern European countries were in need for change as they were very rigid, highly dependent on state support and characterised by adversarial relations (Fajertag & Pochet, 2000; Natali & Pocket, 2009; Molina, 2014). The rigidity of the collective bargaining system in these countries was exposed during the financial and sovereign debt crisis, prompting the introduction of abrupt and often politically controversial reforms. On the other hand, more mature corporatist economies also underwent reforms, but the reform process took place gradually over the course of several decades following concerted social dialogue based on a shared understanding of the need to adapt to new economic realities. Arguably, these incremental reforms also focused more on enhancing the functioning of the existing system of collective bargaining rather than seeking a more systemic change that challenges the core of a country's collective bargaining tradition.

This paper aims to contribute to the recent policy debate on collective bargaining reforms by comparing the recent reforms to the Portuguese system with the gradual changes since the early 1980s that took

place in the Netherlands, while preserving the predominance of sectoral bargaining.[iii] A comparison of the Dutch and Portuguese systems is insightful for three main reasons. First of all, the collective bargaining systems of the two countries share many important features: i) sector-level bargaining is dominant; ii) collective bargaining is very pervasive, covering around three quarters of the workforce; iii) trade union density is rather low, representing 20% or less of the workforce; iv) administrative extensions of collective agreements are fairly important. Consequently, one could are argue that both systems are relatively centralised.

Secondly, their industrial relations systems differ markedly in their maturity and the way operational practices have evolved over time, with potentially important implications for the quality of industrial relations and the effectiveness of collective bargaining. In the Netherlands, after the Wassenaar agreement of 1982, which ended a wage spiral and an era of tense and often conflictual labour relations, the system has gradually adapted to emerging challenges such as monetary unification, globalization, and population ageing. It has done so in incremental steps, without changing the fundamental features of the system.[iv] Portugal, on the other hand, emerged from a long-lasting conservative dictatorship a little more than 40 years ago. While the high-inflation environment of the 1970s and 1980s helped to achieve real wage adjustments when needed, the collective bargaining system had not been put to a proper test in a low-inflation environment until the global crisis of 2008. In the context of an adjustment program, Portugal implemented abrupt and often controversial labour market reforms, including in collective bargaining. Therefore, comparing the Portuguese and Dutch experiences allows us to speculate on the role of reforms induced by gradual, concerted social dialogue instead of crisis and those by external pressure.

Thirdly, as a result of the incremental changes in the Netherlands and the relative rigidity of the Portuguese system the two systems developed differently, with respect to the flexibility of the system to respond to changing economic realities with important benefits for the quality of labour relations. This paper focuses on a number of specific elements of the Dutch system that are likely to have contributed its flexibility and its effectiveness. These are: i) the extent and nature of decentralisation, ii) the extent to which administrative extensions of sectoral agreements take account of social and economic consideration , iii) the application of agreements after expiration or retrospectively (ultra- and retro-activity), and iv) the degree of coordination and cooperation between social partners.

Our analysis suggests that the recent reforms in Portugal have brought the institutional set-up more in line with that in Netherlands, but questions remain about the implications of these changes for actual bargaining practices and the ability of the system to contribute to better outcomes for workers and firms.

First, the scope for flexibility at the worker and firm levels within sector-level agreements has increased over time in both countries. While the Dutch system has held on to sector-level bargaining, it has gradually increased the scope for flexibility at the firm or worker level within sector agreements. This is in contrast with the case of Portugal, where decentralisation has only been introduced recently, and so far does not appear to have significantly increased the scope for flexibility at the firm level. Second, concerns about the possible adverse employment effects of coverage extensions have led to the introduction of representativeness criteria in both countries. However, as a result of the way these criteria have been introduced and the presence of a clear and transparent framework for exemptions from extensions a strict application of representativeness criteria remains very contentious in Portugal. Third, since the reforms in the aftermath of the crisis the application of retro-activity of collective agreements and their extensions in Portugal is now similar as in the Netherlands. While Portugal has taken additional measures to restrict the ultra-activity of collective agreements and extensions, no such restrictions exist in the Netherlands. However, in the Netherlands ultra-activities is limited to the signatory parties while it applies to both signatory and non-signatory parties in Portugal. Fourth, effective coordination between bargaining units and high-quality labour relations are crucial for high-performance collective bargaining systems. While enhancing the coordination of collective bargaining outcomes and the quality of labour relations is beyond the direct control of policy makers, the Dutch experience points to a number of helpful strategies based on a combination of 'carrots' (e.g. tax concessions, even greater involvement in training activities) and 'sticks' (including the possibility of restricting the extensions of collective agreements). It is unclear what the consequences are of the reforms to collective bargaining in the aftermath of the global financial crisis in Portugal on the quality of industrial relations and the ability of the social partners to contribute good macro-economic outcomes.

The remainder of this paper is structured as follows, focusing on different components of sectoral collective bargaining. Section 2 discusses decentralisation. Section 3 examines the role of extensions. Section 4 discusses the role of ultra and retro-activity. Section 5 discusses the role of coordination and trust between the social partners. Finally, Section 6 concludes.

2. Decentralisation

In many countries with national or sectoral bargaining, decentralisation has been "the name of the game in industrial relations" (Visser, 2013b). Decentralisation refers to the creation of more space for negotiations over working conditions at the level of the firm, establishment or workplace (Visser, 2016b), in contrast to the sectoral or national levels.[v] Decentralisation is often seen as a way to improve

labour market performance through enhanced adaptability and resilience of firms. For instance, Dustmann *et al.* (2014) have argued that decentralisation played a key role in the strong performance of the German labour market in the aftermath of the crisis.

A first type of decentralisation refers to the possibility to deviate from national standards. In the Netherlands, self-regulation by social partners is typically seen as a way to limit the need for detailed regulations by the state (Visser, 2018). Over the last decades several possibilities were introduced for deviating from national labour law (see e.g. Verhulp, 2003; Heerma van Voss, 2005). Under "semi-binding law", firms are allowed to deviate from the respective clause when they agree so with their employee in writing. "Three-quarters law" is a bit stricter, as deviations are only possible when employers and unions negotiate different standards in a collective agreement. Finally, in between these two are clauses with "two thirds-binding law", whereby deviations are allowed when employers negotiate different standards with their work council. Of course, such deviations are possible with clauses that are translations from European Directives. But they have been introduced for clauses on notice periods (semi-binding law), working time (two-thirds binding law) and probation periods (three-quarters law). Importantly, such deviations can also be less favourable to workers, unless stipulated otherwise. Portugal, on the other hand, has a very legalistic tradition in which the labour code (the collection of all applicable labour law) regulates virtually all aspects of the labour relationship, and there is no use of derogations therefrom (OECD, 2017). According various commentators, this legalistic tradition has limited the scope for self-regulation by the social partners (see Traxler, 2003; Molina, 2014; Aghion et al., 2011).

For the remainder of this paragraph we focus on deviations not from national law, but deviations from collective agreements. While sector-level bargaining remains predominant in both the Netherlands and Portugal, with sectoral agreements covering around three quarters of employees, both countries have sought to create more scope for bargaining at the firm level. In the Netherlands, these discussions started in the early 1980s – when bargaining parties at the national level ('central parties') played an important role in wage setting – and institutional reform happened incrementally. In Portugal, decentralisation became an agenda item much more recently as a result of the 2011 sovereign debt crisis and the subsequent adjustment program. Consequently, the changes have been more abrupt and also more prone to reversals.

In the Netherlands, an agreement in 1982 by the main union and employer representatives ("Wassenaar agreement") is widely seen as setting the stage for the decentralisation of collective bargaining over

wages and working conditions. It effectively signalled the end of active interference by the government in wage setting via wage freezes, even if, in practice, it retained a certain degree of control through the threat of intervention (De Beer, 2013).[vi] The more hands-off approach by the government increased the responsibility of the social partners for outcomes at the sectoral level. In the bipartite agreement of 1993 ("Een Nieuwe Koers", "A New Course"), the central parties emphasised the need for customization and differentiation in wage setting. Moreover, it argued for a greater emphasis on decentralised or firm-level bargaining to achieve this.

In contrast to other countries where decentralisation effectively led to collective bargaining taking place simultaneously at the sector and firm levels (e.g. Germany), in the Netherlands the main route to decentralisation has been to increase the scope for customization *within* sectoral agreements by allowing for more flexibility at the worker level without requiring an additional layer of bargaining at the level of the firm[vii]. One reason for this is that, in the Netherlands, unlike in Germany, unions are only weakly affiliated to work councils and trade unions are be reluctant to delegate negotiating power to the work councils ((Visser, 2016b). In addition, anecdotal evidence suggests that also employers may prefer to negotiate with a professionally organised and macro-oriented union instead of a work council existing of their own employees[viii].

Decentralisation within sectoral agreements has taken various forms (SER, 2006; van Lier & Zielschot, 2014; Volkerink *et al*., 2014). First, there has been a gradual shift from standards in collective agreements that specify narrow bounds for pay and working conditions, towards minimum standards that provide more space for issues such as performance-related pay. Minimum standards nowadays characterise the majority of pay clauses in sector-level agreements (Visser, 2013a; Van Lier & Zielschot, 2014).[ix] The negotiation of higher standards is left to worker-level bargaining and in some cases to local unions or work councils (e.g. for working hours, see van Lier & Zielschot, 2014). Second, an increasing number of sectoral agreements include a range of working conditions from which employers and employees can choose, so-called "à 1a carte" provisions, that allow trading off pay and other working conditions. For instance, a part of gross salary can be used to finance additional leave or higher pension entitlements (Volkerink *et al*., 2014). In the latter case, the total budget is still set by sector-level bargaining, but working conditions can be customised to workers' preferences.

Importantly, decentralisation in the Netherlands has offered more flexibility to firms and workers without undermining sectoral bargaining or its coverage (De Beer, 2013). As such, the Dutch case provides an example of "organised decentralisation" (Traxler, 1995). As of 2014, 78% of employees

were covered by a sectoral-level agreement, while the share of workers covered by a firm-level agreement was 8% (De Ridder and Euwals, 2016). The share of employees covered by any collective agreement has been rather stable over time at around 80%.

In Portugal, decentralisation of collective bargaining is a much more recent and abrupt phenomenon, and it has largely been imposed from the outside as part of the adjustment program rather than by the social partners themselves (as in other Southern European countries - see Marginson, 2014). This is also related to the political developments in the country, which has emerged from a long-lasting conservative dictatorship (that ruled out independent unions) a little more than 40 years ago. The union movement that was born following the 1974 revolution, in a highly politically charged context, has gradually become more moderate. This process involved many steps, including: the break-up of the then single union confederation into two (1978); the creation of a national forum for tripartite dialogue (CPCS, 1984); a first income policy agreement (1986) which sought to control inflation; the membership of CPCS by the largest union confederation (CGTP, 1987); an important labour reform towards reducing the very high level of employment protection and segmentation that existed at the time (1989, see Martins, 2009); the 2003 introduction of the labour code that also featured the possibility of termination of collective agreements; and a number of tripartite agreements signed since the early 1990s, on average every two years, even if excluding CGTP, in particular those of 1990 and 1992.

While there have always been a number of firm- or holding-level agreements in the private sector, these largely concerned single firms or groups of firms that had previously been part of the public sector and were subsequently privatised.[x] The historical absence of firm-level bargaining in Portugal reflects a number of factors. First, the strict application of the favourability principle reduces incentives for firm-level bargaining. This entails that, in case of diverging standards in different agreements covering the same workers, it is the most favourable conditions across all agreements that apply to employees. Its strict application is itself a consequence of the strong legalistic tradition in labour matters, also shaped by many years of high inflation, which excluded the possibility of deviating downwards from sectoral standards in firm-level agreements, unless there was a view that, overall, the new terms would be more favourable to (incumbent) workers.[xi] Second, strong competition between the two main unions, combined with low levels of membership and lack of trust from employees towards potential union representatives, effectively reduced the scope for firms to engage in firm-level bargaining.[xii]

In 2009, a first attempt towards decentralisation was made when work councils in firms with more than 500 employees were given the right to engage in formal collective bargaining, but only if authorised by unions. Moreover, the resulting firm-level agreements were given precedence over sectoral agreements, even if some standards were lower, although presumably only in the context of an overall improvement in working conditions. In subsequent years, the firm-size threshold for collective bargaining by work councils was lowered to 250 in 2011 and 150 in 2012. However, approval from sectoral unions remains a pre-requisite. Moreover, given the competition and lack of trust between work councils and unions, sectoral unions have not been keen to delegate bargaining to the former at the firm level. In practice, this has made it difficult for this new tool (collective bargaining conducted by work councils sanctioned by unions) to gain practical relevance.

It is not clear what the impact of these reforms on firm-level bargaining has been. Figures up to 2015 show that the number of firm-level agreements has been largely constant[xiii], suggesting that the recent regulatory changes did not have a major impact on the prevalence of firm-level bargaining. It also implies that in practice, the new framework has not so far provided much additional space for firms in terms of wage flexibility. In part, this may reflect the fact that such agreements have been largely imposed externally and hence benefited from limited acceptability among incumbent firm and worker representatives who, in any case, have a strong vested interest in sectoral bargaining. Especially when firms can be certain sectoral extensions will be extended anyway, they may not see a benefit from firm-level bargaining. It may also reflect the continued need for approval by sectoral unions, which greatly reduces the scope for signing firm-level agreements with less favourable conditions.

Looking forward, Portugal faces different options to decentralise collective bargaining further. One possibility would be to place more emphasis on bargaining with work councils, e.g. by allowing them to conclude formal firm-level agreements also without the consent of sector unions. However, this would potentially clash with the constitutional provisions that indicate that unions can conduct collective bargaining but do not offer the same rights to work councils. Furthermore, for this route to make bargaining attractive also for workers, work councils are needed that are both representative of the workforce and independent from the employer.[xiv] On the other hand, Portugal could promote the Dutch approach of increasing flexibility for workers and firms through the inclusion of e.g. à-la-carte provisions in sectoral agreements. Portugal could also facilitate additional deviations from the national labour code, by extending the range of subjects that can be adjusted (upward or downward) by bargaining or even restricting somewhat the scope of the labour code itself. These measures would broaden the scope for Pareto-improving agreements, and as such might make bargaining more attractive

to a larger set of firms and unions. As in the Netherlands, the government could still influence the resulting agreements by specifying at what level parties are allowed to deviate (individual, work council or trade union) and to what extent deviations can also be less favourable to workers.

3. Extensions

In both the Netherlands and Portugal, collective bargaining coverage extends well beyond the membership of trade unions and employer associations. A first reason for this, which applies in the case of the Netherlands, is the presence of so-called *erga omnes* provisions. In the Netherlands, collective agreements automatically apply to all workers within firms that sign directly or are subject to the agreement through their membership of a signing employer association. In Portugal, as in some other countries such Germany and Norway, this is not the case. A second reason, which applies to both countries, is the frequent use of administrative (i.e. government-issued) extensions of collective agreements beyond the membership of employer associations to all firms and workers in a sector. In order to have an agreement extended, a request has to be made by one or both signatory parties to the Ministry of Labour. Extensions have been motivated by the desire of creating a level-playing field and, in doing so, limiting the scope for competition on the basis of poor working conditions while enhancing inclusiveness and reducing wage inequality.[xv]

One potential concern about extensions, however, is that the signatory parties to the agreement may not be representative of the firms and workers in the sector. As a result, there is a risk that collective agreements may not be well suited to the needs of firms and workers to whom the agreement is imposed by means of an administrative extension. For example, to the extent that larger firms are more likely to be part of an employer association, but also tend to be more productive and willing to pay higher wages, this may result in collectively agreed wage floors that are too high for smaller non-organised firms and therefore reduce employment—particularly of low-productivity firms and workers (Zalm, 1992). It has been argued that non-representative employer associations may even have an incentive to use extensions as an anti-competitive device that seeks to reduce competition from low-wage firms (Haucap *et al*, 2001; Magruder, 2012; Martins, 2014).

In order to alleviate such concerns, administrative extensions are often subject to representativeness criteria or a meaningful test of public interest.[xvi,xvii] In the Netherlands, the 1937 Extension Act stipulated that extensions were only granted when an 'important majority' of workers in the sector was employed by firms which are members of the signatory employer association(s). The exact threshold was not made explicit until in the 1990s extensions were criticized by economists for contributing to wage drift and unemployment among the low-skilled workers (see e.g. Zalm, 1992; SER, 1992).

Following a positive advice by the Social and Economic Council (SER, 1992), the Minister specified that 60% qualified as an important majority, whereas with a proportion of between 55% and 60% of workers additional scrutiny was exercised. These rules are still in place today. Given that employer organisation in the Netherlands is rather high – 85% according to Visser's ICTWSS database – for many sectors this threshold is not prohibitive, although there are also examples of sectors where collective agreements cannot be extended anymore due to declining representativeness (such as in the shipping sector, see Mevissen *et al*., 2015). The Dutch law also provides for a public-interest test. While political actors frequently call upon this clause to limit extensions to agreements that meet certain conditions (for some recent examples, see Tweede Kamer, 2016), in practice, the government has been reluctant to resort to this clause, fearing its political interference would disturb negotiations between bargaining partners. In a number of instances, the government has implicitly or explicitly referred to the threat of non-extension as a means to discipline the social partners, for instance, to promote wage moderation or to discourage the inclusion of social security provisions that it deemed excessively generous (see Section 5).

In Portugal, no representativeness criteria existed until the reform of 2012. Administrative extensions were quasi-automatic, making collective bargaining strongly dependent on government support (as in other Southern European countries, see Traxler, 2003 and Molina, 2014). A brief study of the number of workers potentially subject to the extension and their wage increases would be conducted by the Ministry of Labour, using the most recent 'Quadros de Pessoal' data, a matched employer-employee register. However, if these findings on workers and wage increases had any impact on the decision to extend, our understanding is that an extension was even more likely the higher the number of workers affected and the higher their wage increases, not the opposite. After a temporary suspension of administrative extensions from June 2011 (a policy analysed in Hijzen and Martins, 2016), the criteria for extensions were reformed in 2012 by allowing extensions to be issued only if the employer organisation represented firms covering at least 50% of the workforce of the relevant sector. Since the density of employer association membership is rather low – 40% according to our estimates[xviii] – this has led to concerns that the conditions for extensions were too strict. In July 2014, with effect from January 2015, these requirements were again revised by adding an extra, alternative clause stating that extensions could also be issued if at least 30% of the membership of employer associations (in terms of the total number of firms) consisted of small- and medium-sized enterprises (firms with less than 250 employees). Since this new representativeness clause is met for the large majority of employer associations, this new, alternative criterion effectively represented a return to the situation pre-2012, characterised by a virtually automatic extension of all agreements. More recently, in June 2017,

representativeness criteria were fully abandoned, implying a both *de jure* and *de facto* return to the pre-2011 period.

While representativeness criteria help avoid too large systematic differences in the characteristics of firms and workers in the organised (affiliated) and unorganised (non-affiliated) sector, there remains a risk that standards in collective agreements are not in line with the needs of all firms, whether they are affiliated or not. To address this issue, exemptions to administrative extensions can be granted to firms and workers that feel the sectoral agreement does not suit their needs. Importantly, even if such exemptions are not widely used, their existence provides incentives to better adapt the contents of sectoral agreements to the needs of firms that are not affiliated to an employer association.

In the Netherlands, there are two different ways through which firms can get exempted from extensions. Since 2007, the main route is to get dispensation from the social partners who have concluded the agreement (until then, having a firm-level collective agreement was a sufficient condition for dispensation).[xix] Since 2014, all sectoral agreements are required – in order to qualify for an administrative extension – to include a transparent exemption framework stipulating objective dispensation criteria and the procedures for obtaining dispensation. The second possibility is to request dispensation from the Ministry. This is only possible if firms or subsectors can make a compelling case that firm-specific conditions justify dispensation and if they have concluded their own agreement with an independent union. Traditionally, most conflicts over extensions have arisen in low-cost sectors such as retail, work agencies and cleaning (Visser, 2005). Between 2007 and 2015, the Ministry granted dispensation in 58 cases in response to 191 requests and rejected 77 of them, mostly on material grounds and sometimes on procedural grounds (i.e. no firm-level collective agreement) (MinSZW, 2016).

In Portugal, firms or unions may formally oppose an extension and make a request for their non-application. However, such requests have been issued very rarely, and have typically concerned unions that had not subscribed to the agreement being extended in the first place (but subscribed to an alternative agreement with the same employer association). Individual firms have rarely opposed extensions for a number of possible reasons, including low expectations that a request for non-application would be accepted, concerns about the effects of an application in terms of their reputation with banks and other firms they do business with, and the costs involved in applying for an exception. Non-compliance with the extension may also be an approach adopted by some firms, given potentially

low levels of enforcement by the labour inspectorate and imperfect knowledge of labour law and collective bargaining, particularly among smaller and younger firms.

Another argument for extensions is that they reduce the transaction costs of setting working conditions, which may be particularly important for small firms that lack the resources to engage in firm-level bargaining (Blanchard *et al*., 2014). This argument alone does not provide a sufficient justification for having extensions that impose similar conditions to all firms in a sector, but rather provides an argument for letting individual firms adopt sectoral norms voluntarily, i.e. "opting in". One example is the growing practice of "orientation" in Germany, where employers voluntarily follow pay policies in collective agreements in the sector without being involved in their negotiations (Addison *et al.*, 2012). Compared with extensions, the main advantage of this approach is that it does not impose excessive pay conditions on low-productivity employers and that employers are not bound by the conditions in the collective agreement when economic circumstances change. This increased flexibility for firms comes at the cost of potentially lower labour standards for workers and higher inequality, especially if firms pick only some of the collectively agreed working conditions.[xx] Since extensions were quasi-automatic, orientation has not played a role in Portugal, at least until recently. In the Netherlands, some firms voluntarily follow collective agreements ("incorporatiebeding"). However, when making an explicit reference to a collective agreement in an employment contract, the agreement becomes legally binding and firms cannot just "opt out" as they please.

In the Netherlands, there has traditionally been broad support for extensions. According to surveys, most firms – also those bound to the collective agreements by extension – report being in favour of extensions (Van den Berg & Van Rij, 2007; Mevissen *et al*., 2015). While two parties are currently in favour of abolishing administrative extensions[xxi], most of the others see the extension procedure as a legitimate way to avoid downwards competition on working conditions. Hartog *et al*. (2002) did not find a significant wage effect of extensions in the Netherlands, while De Ridder and Euwals (2016) find that wages are higher in sectors with extensions, but this effect was only present in the boom years 2006 and 2007 and not in the crisis years that followed. Given the absence of a wage premium in the crisis years, it is unlikely that extensions have resulted in large job losses as reported for e.g. Portugal (Martins, 2014). At the same time, there has recently been some discussion on whether the current extension and dispensation rules allow for enough customization or could harm outsiders (see Gautier, 2015; Grapperhaus, 2015; Hartog, 2015; AVV, 2015; Tweede Kamer, 2016). Furthermore, there are concerns that *non-wage* clauses in sectoral agreements that try to neutralise activating reforms by the government – such as most recently the duration of unemployment benefits – could harm employment

when such sectoral agreements are extended to the entire sector (De Ridder & Euwals, 2017). Hence, suggestions have been made to allow for a stronger material appraisal of dispensation requests and the delegation of this responsibility away from social partners to an independent authority (Grapperhaus, 2015; Hartog, 2015; AVV, 2015).

In Portugal, both the role of extensions and the need for representativeness criteria remain contentious, with virtually all social partners advocating the former and rejecting the latter. One important reason why representativeness criteria are controversial is that employer associations have too few members in most cases to allow concluding sufficiently representative agreements, at least by the standards of representativeness of countries such as the Netherlands. As a result, the introduction of strict representativeness criteria in 2012 may have played a role in bringing sector-level bargaining to a standstill (although it is difficult to disentangle its effect from that of the economic crisis). While the 2015 reform considerably reduced the stringency of representativeness criteria, it also risks reintroducing the problems associated with non-representative extensions.[xxii]

To solve this conundrum, one possibility may be to fix a timeline for gradually increasing the stringency of representativeness criteria. This should eventually eliminate non-representative extensions, while at the same time providing employer associations time to increase their membership levels, especially among smaller firms, which account for a large share of employment. Another option could be to follow the Dutch practice of a double criterion. For instance, in addition to the current threshold of 50%, Portugal could introduce an additional range – e.g. between 30 and 50% - where the government would grant extensions only when certain additional conditions are met (such as efforts to improve the representativeness of bargaining parties)[xxiii]. Furthermore, for both types of extensions, the government could require the existence of a clear dispensation framework, as is required to qualify for extensions in the Netherlands. Table 1 summarizes the main rules governing extensions.

Table 1. Extensions: conditions and exemptions

	Netherlands	Portugal – pre 2012; and from 2017	Portugal – between 2012 and 2017
Test of public interest	Yes - but rarely called upon explicitly	No, decision is entirely discretionary, not based on objective and verifiable criteria	No

Representativeness criteria	Share of workforce in signatory firms should exceed 60% (or 55% with additional scrutiny and 50% in exceptional circumstances)	No	2012 - 2014: Share of workforce in signatory firms should exceed 50% of total employment in relevant sector. 2015 - 2017: share of workforce in signatory firms should exceed 50%; or at least 30% of employer association members (firms) should have no more than 250 employees (the latter criterion being met in almost all cases)
Exemptions	Application procedure to government or though dispensation rules in collective agreements	No	No

4. The continuity of sector-level agreements: retro and ultra-activity

In order to ensure the continuity of rights and obligations in collective agreements, they may enter into force retro-actively, i.e. before their signature date, and/or remain effective ultra-actively, i.e. beyond the date of their expiration. These two instruments are not equivalent from the perspective of workers or firms. Retro-activity mainly matters for wages, since it typically imposes an obligation on firms to pay wage arrears, whereas ultra-activity seeks to preserve the continuity of not only wage floors but also other non-wage working conditions. Consequently, retro and ultra-activity are best seen as complements for ensuring the continuity of collective agreements. As most recent discussions have tended to focus on the pros and cons of ultra-activity we will start with this.

4.1 Ultra-activity

Ultra-activity entails that collective agreements remain effective after their date of expiration. In doing so, it provides a form of income security to workers in the medium term in a similar manner as the statutory minimum wage. This can also enhance labour peace and help foster a long-term perspective in collective bargaining. At the same time, ultra-activity tends to reduce incentives for collective bargaining and signing new agreements, particularly when wages may otherwise have to be renegotiated downward, such as for example during a recession. This is because it has a tendency to shift the focus of collective bargaining from the distribution of overall rents to that of *additional* rents, which are more limited and may indeed be negative in a recession. The pro-cyclical nature of economic

rents creates pro-cyclical incentives for collective bargaining, and these are reinforced in the context of ultra-activity. While the pro-cyclicality of collective bargaining in itself may not be an issue, weak incentives for renegotiation reduce such pro-cyclicality in difficult economic conditions. This may hamper labour market resilience since it reduces the likelihood of finding mutually beneficial solutions in periods where these are most needed.[xxiv]

Ultra-activity reduces the scope for nominal and real wage reductions once collective agreements have expired. While this is unlikely to be an important issue in normal times, it could become an obstacle to wage adjustment in recessions, particularly in a low-inflation environment. In normal economic times, there is little need for downward wage adjustment, while in recessionary periods with high inflation, such as those following the oil shocks in the 1970s or currency crises in emerging markets, downward real wage adjustments can be achieved simply through wage moderation without having to cut nominal wages. However, in a low- or even negative-growth and inflation environment such as the recent financial and sovereign debt crisis, ultra-activity can undermine labour market resilience in countries without independent macro-economic policies by increasing the degree of downward nominal wage rigidity—limiting the scope for real wage adjustment to restore external competitiveness and clear the labour market.[xxv]

Both Portugal and the Netherlands have some form of ultra-activity, but its scope differs (Table 2a). In the Netherlands, ultra-activity only applies to organised firms and not to firms covered by an administrative extension. This means that after the expiration date of a collective agreement, non-organised firms are allowed to cut wages as long as wages do not fall below the statutory minimum wage, offering an incentive to bargaining parties to strike a new agreement. In Portugal, ultra-activity related to clauses that determine the renewal of agreements is limited to 18 months from 2009 and 12 months from 2014. However, in continuing employment relationships that started when the collective agreement was in force, employers cannot cut nominal wages or adjust downward most other working conditions unless the worker agrees and, in some cases, the labour inspectorate is involved[xxvi]. Ultra-activity also applies to all covered firms, including those covered through extensions.

The application of ultra-activity to extensions can have important implications for the incentives of bargaining parties, especially when there is a need for downward nominal wage flexibility. Guimarães *et al*. (2015) show that in the aftermath of the crisis nominal (base) wage cuts have been virtually absent in Portugal, while downward nominal wage rigidity has become binding for the large majority of (continuing) worker-firm matches as reflected by the pervasiveness of nominal wage freezes. While in

part this could reflect the role of binding wage floors, supported by ultra-activity, it may also reflect the need for union consent for cutting nominal wages in a context where employment protection is very strict. In any case, the lack of incentives to renegotiate wages downward, possibly reinforced by ultra-activity, may have contributed to the sharp drop in the number of new contracts --not in the number of contracts in force, however—during the crisis, alongside the collective bargaining reforms mentioned above.

Table 2a. Ultra-activity

	Netherlands	Portugal – pre 2012	Portugal – since 2012
Scope	Ultra-activity of collective agreement, not for parties bound by extensions	Ultra-activity applies to both collective agreement and extensions.	Ultra-activity applies to both collective agreement and extensions.
Duration	Unlimited - unless stated otherwise in collective agreement	Time-limited unless stated otherwise in collective agreement: five years up to 2009 and 18 months since 2009	Time-limited unless stated otherwise in collective agreement: 12 months
Application	Workers who were employed by firm prior to expiration	Workers who were employed by firm prior to expiration	Workers who were employed by firm prior to expiration

In the Netherlands, both employers and trade unions saw the need for wage moderation in the aftermath of the crisis. More recently, renewing collective agreements has proven difficult in various service sectors, such as retail trade and hospitality (van der Valk, 2016). However, this largely has reflected the role of difficult economic conditions in these sectors and the weak position of traditional trade unions, rather than ultra-activity.

4.2 Retro-activity

In both Portugal and the Netherlands, there is a possibility to activate collective agreements, entirely or in part, retrospectively so as to ensure continuity of rights and obligations. A difference between the two countries is that in the Netherlands this possibility only applies to the signatory parties of agreements and not to those bound by subsequent extension, whereas in Portugal, until the reform of 2012, retro-activity applied to both signatory parties and those bound by extensions. The rationale for

retro-actively applying agreements and extensions is to ensure that a level playing is fully preserved, consistent with the spirit of sector-level bargaining and the logic behind extensions.

The application of retro-activity to extensions has been a source of concern, however. The reason is that extensions are typically administered with some delay. This means that the degree of retro-activity tends to be more important for extensions than for the original agreements. For example, Hijzen and Martins (2016) report that in Portugal during the period 2010-2011, the typical delay with which extensions entered into force relative to the relevant collective agreement tended to be about 6 months. To the extent that collective agreements are publicly documented and there is little uncertainty as to whether or not they will eventually be extended, this should not pose any problems as long as firms have rational expectations and do not face any financial frictions. However, if many firms unexpectedly become liquidity-constrained as a result of a major unforeseen macroeconomic shock, the requirement to retro-actively pay wage increases over a considerable period of time could well lead such firms to lay off workers, with significant adverse implications for aggregate employment. Hijzen and Martins (2016) indeed find evidence that retro-activity contributed importantly to the adverse impact of extensions on employment growth during the crisis in Portugal, as agreements subject to longer retro-activity periods exhibit stronger negative effects.

As part of the labour market reform of 2012, retro-activity for extensions was abolished in Portugal (and has not been reinstated since). This means that retro-activity provisions under the Portuguese and Dutch systems are now very similar (Table 2b).

Table 2b. Retro-activity

	Netherlands	Portugal – pre 2012	Portugal – since 2012
Scope	Possible to activate (part of the) CA retrospectively, but not for extensions	Possible to have enter CA retrospectively, including for extensions	Possible to activate CA retrospectively, but not for extensions

5. Coordination and cooperation

Apart from the differences in rules governing the bargaining process discussed above, the Netherlands and Portugal differ in the degree to which the actions of bargaining units are synchronised ('coordination') and the quality of social dialogue between bargaining partners ('cooperation').

5.1 Coordination

Coordination among bargaining units can positively influence macroeconomic flexibility (Blanchard and Wolfers, 2000; OECD, 2006; Traxler and Brandl, 2012). Indeed many countries with some form of coordinated bargaining, such as Scandinavian countries, Germany, or Japan, have enjoyed comparatively high and stable employment over the years (IMF, 2016). Coordination can be state-imposed based on statutory controls such as indexation, state-sponsored through social pacts, can take the form of agreements between or within the central employer and worker organisations, or can be led by trend-setters (resulting in so-called trend or pattern bargaining) (Traxler *et al*., 2001). The issue of coordination typically arises in countries predominantly characterised by sector-level bargaining but effective coordination can also be achieved in countries with decentralised bargaining systems.

The Netherlands has a long tradition of state-sponsored coordination under which non-binding central agreements between the main employer and union confederations, with or without involvement of the government, have been fairly common since the Wassenaar agreement in 1982. Such agreements can shape expectations and establish norms in relation to collective bargaining and macro-economic policy, without imposing any formal rigidity on the pay policies of firms (Visser, 2013b). This type of coordination requires inclusive and representative employer and union confederations. Since such agreements can be fragile in practice, it is important for them to be underpinned by institutional arrangements that provide a stable support for social dialogue at the national level.

In the Netherlands, to ensure the confederations have a mandate, both union and employer confederations typically have an annual discussion round with their members to set guidelines for wage increases and other bargaining priorities. Especially for trade unions, this internal coordination is quite strong, as sectoral unions for instance agree on a maximal wage demand and can even possibly team up with employers against dissident unions. To support bi- and tripartite agreements at the national level, institutional arrangements also play an important role. The Social and Economic Council (a tripartite council of social partners plus independent members) and the independent Bureau for Economic Policy Analysis (CPB) particularly matter, providing platforms for regular discussion

between the social partners and developing a shared understanding of the key challenges (Den Butter and Mosch, 2003).

The Wassenaar agreement of 1982 remains the prime example of wage coordination to this day. It effectively broke the wage-price spiral that was paralyzing the economy at the time and heralded a prolonged period of price stability and strong economic growth. The agreement was reached between employer and employee organisations, but was also supported by the government e.g. with tax concessions that dampened the adverse effect of wage moderation on net incomes. Since then, there have been several other instances where social partners at the national level aimed to influence wage setting notably in the late 1990s and early 2000s, often with pressure from the government (including through a threat not to grant extensions). Central recommendations on wages in these years served as an important input for collective bargaining (Van Houten, 2008).

Coordination also plays an important role regarding other aspects of collective bargaining. An important example concerns the level of entry wages set in collective agreements. In the early nineties, the government grew increasingly worried about declining employment of lower-skilled workers, which coincided with an increasing gap between the statutory minimum wage and entry scales of collective agreements. In response to government pressure, including the threat not to grant extensions, central parties issued a recommendation to bring the minimum wage scales in collective agreements down to the level of the national minimum wage. This approach proved highly successful. Whereas in 1994, the difference between the minimum wage in CAs and the national minimum wage (NMW) was on average 12%, this came down to 2,2% in 2004 and 1.7% in 2014 (Rojer, 2002; Min SZW, 2005 and 2015). Currently, a similar approach is taken to allow for special entry scales to support the participation of (partially) handicapped persons ("Participatiewet"). Other examples include the facilitation of temporary and part-time work, the employability of older workers and the inclusion of exemption procedures in collective agreements (see Section 3). Such measures have likely contributed to the strong structural performance of disadvantaged groups in the Dutch labour market.

Active wage coordination across bargaining units has been traditionally limited in Portugal. Despite the absence of active coordination, the labour market remained relatively resilient until the mid-1990s, partly as inflation was also relatively high by European standards, allowing real wages to respond strongly to changes in unemployment without requiring any adjustment in nominal wages (Martins *et al*., 2012). As in other high-inflation countries, the prospect of EMU membership also acted as catalyst for several pacts to bring wage inflation down during the 1990s (Fajertag & Pochet, 2000). As the entry into EMU removed this catalyst and inflation came down in the late 1990s, adjustment of real wages

was much less automatic and became more reliant on more flexible wage setting mechanisms or coordination by social partners.

The main reason why active coordination did not materialise in Portugal, even during the post-2000 period, was that it proved difficult to reach agreements between all (currently four) employer confederations and the two main union confederations. As discussed above, even when compared to other new democracies, relations between bargaining parties in Portugal had been rather adversarial and parties often lacked a shared understanding of the economic problems at hand (Fajertag & Pochet, 2000; Natali & Pochet 2009). In the case of the financial crisis, the issue at hand was the need for real wage adjustment in a low-inflation environment. Despite the frequent occurrence of tripartite agreements, one of the two major union confederations (the largest one) rarely subscribed to them. The tripartite agreement of 2012 was notable in that it did bring together the main employer and the smaller union confederations and also included many measures towards greater labour cost flexibility. However, this may have been an exception reflecting the unique economic context at the time. The 2012 agreement played an important role in garnering support from the social partners for many of the reform measures agreed as part of Portugal's adjustment program.[xxvii]

In the absence of more effective coordination by social partners, the national minimum wage gains particular importance as a coordination device. It is relatively high by European standards in Portugal, following a push during the period 2007-2011, and is set by the government in consultation with the social partners in a discretionary manner. Under such circumstances, the minimum wage has the potential to act an instrument of wage indexation, by setting a benchmark for collectively negotiated wages, even if it would not be largely automatic as in the case of France, for example (Fougère *et al*, 2016). By contrast, in the Netherlands, the minimum wage has no strong coordinating role as it is considerably below the median and is set through a fixed formula based on collectively negotiated wages. Consequently, the minimum wage also has a more limited impact on the bargaining process.

5.2 Cooperation

There are striking differences in the quality of labour relations and the degree of trust between social partners in the two countries. While the quality of labour relations in the Netherlands is typically considered very high, and even the highest among 18 countries in a survey of managers conducted by the World Economic Forum, it is rather low in Portugal, as in other Southern European Countries (see Chart 1). Similar insights are obtained when looking at the degree of trust in others or trust in institutions. This suggests that the quality of labour relations is likely to depend on broader societal and

cultural factors and not just on the main actors in collective bargaining and its institutional architecture.[xxviii]

Figure 1 Cooperation in labour relations

[Insert Figure 1 here]

Note: chart shows the average rating of executives of the labour-employer relations in their country, where 1 is "generally confrontational" and 7 is "generally cooperative".
Source: World Economic Forum, The Global Competitiveness Report 2012-2013, Table 7.01.

While the formation of trust between social partners, and that of the wider public in social partners and their institutions, is a complex process, it seems plausible that certain features of collective bargaining systems can contribute to build trust (IMF, 2016):[xxix]

- The inclusiveness of bargaining parties, and that of the collective bargaining system more generally, is likely to enhance trust. Bargaining parties are less likely to be inclusive when they are heavily fragmented and confederations are absent or have weak coverage. In the case of extensions, representativeness criteria can make the system fairer and thereby enhance trust—both directly, and indirectly by providing incentives for bargaining parties to reduce fragmentation and expand their coverage.

- The nature of procedures with respect to opt out and extension can also help, such as the use of objective criteria for processing requests, the availability of accurate and verifiable information for assessing them, and the presence of an independent body in the case of extensions.

- Built-in incentives for regular renegotiation might enhance trust. Such incentives may take the form of time-limited agreements, or alternatively, restricting ultra-activity of agreements to certain non-wage working conditions. This strengthens incentives for the renewal of collective agreements, especially in difficult times. At the same time, rules that would impose collective bargaining may be counter-productive, if there is no shared willingness to reach agreements.

- Mechanisms that make social partners accountable for the effective implementation of collective agreements could foster trust by forcing them to take ownership and reducing the scope for opportunistic behavior. Straightforward ways to make the social partners more accountable include providing transparent, objective and accessible information on the key

elements of collective agreements (e.g. a database with coded information of all collective agreements) and relying on independent labour inspectorates to monitor the effective implementation of agreements.

Importantly, the quality of labour relations is also likely to reflect the success of past experiences and, as such, to be path-dependent (Lorenz, 1999; Blanchard & Philippon, 2004; Visser, 2005; Aghion *et al.*, 2011). For example, employee-employer relations in the Netherlands were much more adversarial at the time of the Wassenaar agreement (1982). According to Visser and Van der Meer (2011), it was only in the decade after Wassenaar that a consensus emerged between unions and employer organisations. Hence, the pact arguably served to demonstrate to bargaining parties that compromises could be mutually beneficial and provided a basis for future collaboration and the build-up of trusting relationships. In Portugal, as noted, the wage bargaining system was only put to a serious test in the 2000s and the aftermath of the Great Recession. As previously social partners had not found each other in (enough) mutually beneficial bargains, at that time the adversarial element was arguably still more present.

In turn, differences in the degree of trust and the quality of labour relations are likely to have important implications for the effectiveness of coordination and, ultimately, economic performance (Blanchard, Jaumotte, and Loungani 2014; Blanchard & Philippon, 2004). For example, the improvement in economic performance in the Netherlands following the Wassenaar agreement of 1982, often referred to as the "Dutch miracle", has in part been attributed to the importance of trust between the social partners and the quality of labour relations (Visser & Hemerijck, 1998; Den Butter and Mosch, 2003). Among other things, trust enables social partners to engage in intertemporal efficiency-enhancing deals that are only feasible in a repeated game. For example, trust can contribute to risk sharing whereby firms insure workers against shocks hitting the firm, in return for lower overall wages. By contrast, the breakdown of collective bargaining at sectoral level during the recent economic crisis in Portugal has been linked in part to the lack of trust between trade unions, employer associations and the government (Addison, 2016). In Portugal, more trust between bargaining parties might have facilitated significantly the adjustment process during the 2011-13 recession. For instance, greater coordination in terms of faster and simultaneous adjustments in both prices and salaries could have restored external competitiveness more quickly at a lower cost to employment and living standards.[xxx]

6. Concluding remarks

Following the crisis, several Southern European countries have implemented substantial reforms to their collective bargaining systems. Given these were often imposed from the outside in the context of an adjustment programme, some see these reforms as a "frontal assault" on collective bargaining. This paper sought to put the reforms in perspective by comparing the changes to the Portuguese system with the system in the Netherlands, where sector-level bargaining also dominates but its functioning has evolved gradually over time in line with changing economic circumstances. The collective bargaining models of the Netherlands and Portugal in fact share many broad features, including their focus on the sectoral level and the widespread use of extensions. We find that the Portuguese reforms have in fact brought the system more in line with Dutch practices, even if significant differences remain. As such, the reforms also contain elements of gradual policy convergence.

In characterising in detail the differences between the two countries, our analysis identified a number of more general insights for improving the outcomes of sector-level bargaining systems. In our view, these lessons are the following:

- *Introducing greater flexibility in collective bargaining systems through decentralisation can be achieved without undermining the inclusiveness of sectoral bargaining*. The Dutch experience, as well as that of some neighbouring countries, has shown that decentralisation is feasible without undermining sectoral bargaining. Decentralisation in Netherlands has taken place gradually over more than three decades and is still continuing. By allowing deviations from national law, more flexibility was offered to firms and workers, inviting social partners to self-regulate. Decentralisation was also pursued *within* sector-level agreements, by making them less prescriptive, through the inclusion of framework provisions or a menu of options rather than by adding an additional layer of collective bargaining at the firm level. By contrast, in Portugal decentralisation is a more recent phenomenon. Similar to many other European countries with sectoral bargaining systems, it has sought to promote bargaining at the firm level but with limited practical impact on either the scope for flexibility at the firm level or the integrity of sector-level bargaining. Looking forward, the Dutch experience can offer inspiration for three (complementary) broad routes for greater decentralisation. One would involve facilitate additional deviations from the national labour code, by extending the range of subjects that can be adjusted by bargaining or even restricting somewhat the scope of the labour code itself. This could broaden the scope for Pareto-improving bargains, and as such might make bargaining more attractive to a larger set of firms and unions. As in the Netherlands, the government could still influence the resulting

agreements by specifying at what level parties are allowed to deviate (individual, work council or trade union) and to what extent deviations can also be less favourable to workers. Furthermore, there could be more customization *within* sector-level agreements whereby parties at the local level can trade-off various elements of the agreements. The last route would be to further support firm-level bargaining. A critical question in such an endeavour is whether firms are allowed to form a collective bargaining agreement with a work council also without the consent of unions. For this route to make outcomes also attractive for workers, work councils would be needed that are both representative of the workforce and independent from the employer.

- *Coverage extensions can help promote inclusiveness, but need to be subjected to representativeness or public interest criteria.* Whereas both countries never relied on a public interest criterion, since the 1990s the Netherlands did place stronger emphasis on representativeness as a criterion for the extensions of collective agreements than Portugal did. Over the years, the framework for exemptions from extensions has undergone gradual change – both material and procedural – and up to this day measures are being proposed to further strengthen its transparency. Although representativeness criteria preclude extensions in some sectors, they are widely seen as a necessary tool to legitimise extensions to non-signatory parties. Representativeness criteria remain controversial in Portugal mainly because representativeness is typically low: it is difficult to specify criteria that are sufficiently strict to be meaningful, yet sufficiently easy to satisfy to allow an effective role for extensions. To solve this conundrum, one might start with a low threshold but set a time-line for gradually increasing the stringency of representativeness criteria up to a reasonable level. This would eventually ensure that non-representative extensions are eliminated, while also providing time for employer associations (and potentially unions) to increase their membership levels, especially amongst smaller firms. Another option might be to follow the Dutch practice of a double criterion. For instance, in addition to the current threshold of 50%, there could be an additional range – e.g. between 30% and 50% - where the government would grant extensions only when certain additional conditions are met (e.g. efforts to improve the representativeness of bargaining parties). Furthermore, for both types of extensions, the existence of a clear dispensation framework might help—as required to qualify for extensions in the Netherlands.

- *Retro-activity and ultra-activity help ensure the continuity of collectively agreed rights and obligations but are best limited to signatory parties.* In both the Netherlands and Portugal, retro-activity applies only to the signatory parties of agreements. In contrast, ultra-activity applies to signatories and non-signatories in Portugal, but only to signatory parties in the Netherlands. While

there are good reasons for ensuring the continuity of agreements through retro and ultra-activity, this can become an obstacle to adjustment in severe recessions. Limiting retro- and ultra-activity to the signatory partners may reduce this potentially adverse impact, while also possibly enhancing incentives for collective bargaining.

- *Effective coordination between bargaining units and high-quality labour relations are crucial for the performance of collective bargaining systems.* In the Netherlands, labour relations tend to be consensual, marked by a comparatively high level of trust between social partners and a shared understanding of the main economic problems at hand. Collectively bargained wages tend to be effectively coordinated (both within and between employers and union confederations) and seem well aligned with macro-economic conditions. In Portugal, labour relations have been conflictual, with lower levels of trust between the social partners, and a weak coordination of collective bargaining outcomes. In contrast to the tradition of consensus building in the Netherlands, as mentioned Portugal has a strong legalistic tradition which leaves limited scope for self-regulation by social partners at the sectoral level and may reduce their responsibility and accountability for economic outcomes. Social partners have more frequently placed themselves in a role of opposition to government (and unions in opposition to employers, and vice versa) than in one of partnership, particularly in periods of recession. Of course, improving labour relations and cooperation is a difficult undertaking that is path dependent and for a large part beyond the direct control of policymakers. Yet, the Dutch experience suggests that the government can promote self-regulation, for example by offering both 'carrots' (e.g. fiscal subsidies, even greater involvement in training activities, allowing deviation from very prescriptive national law) and 'sticks'. The latter may also include the rules regarding collective agreement extensions, which can help make the content of collective agreements more inclusive.

Looking forward, both countries studied here – as well as most other countries where sectoral bargaining remains prevalent - face a number of common challenges related to the decline in union density and the emergence of new forms of work. Although union density in both countries is not relevant for the decision to grant extensions, its decline nonetheless threatens to undermine the legitimacy of collective agreements, especially in some sectors and among younger cohorts. In the Netherlands, the sharp increase in the number of independent workers – to over a million in 2015 – challenges the legitimacy of collective agreements as their interests can be at odds with those of employees. As a way to improve the representativeness of union demands, the Dutch Social and Economic Council (SER, 2013) advises also consulting non-members, including independent

workers.[xxxi] Declining union density may also threaten the bargaining power of unions, thereby possibly undermining collective bargaining as well.[xxxii]

While detailed qualitative comparisons – such as those in this paper – can be useful in inspiring the directions of policy changes, concrete decisions on specific instruments should also be grounded in hard empirical research. In Portugal, accurate and reliable information is available to monitor working conditions, as well as trade union membership and (since 2010) employer association membership. These unique datasets, including a matched employer-employee panel, have been made available to researchers in different forms over the last two decades, facilitating the emergence of a large body of high-quality microeconometric research on different labour market issues, including collective bargaining. This research has been instrumental to create the foundations of evidence-based policy. The availability and use of similar datasets in the Netherlands and other countries could similarly lead to greater insight on the effects of different labour market institutions in various contexts, including particularly collective bargaining, leading to better policy making.

Acknowledgements

The idea of this paper emerged when the authors were visiting the International Monetary Fund (IMF). The authors are grateful to the IMF for its hospitality and would like to thank Niels Achterberg, Mark Baker, Helge Berger, Marko Bos, Bernd Brandl, Romain Duval, António Monteiro Fernandes, Andrea Garnero, Jakob de Haan, Joop Hartog, Hester Houwing, Ronald Janssen, Juan Jimeno, Jannie Mooren, Mark Pearson, Bart van Riel, Cyrille Schwelnus, Jelle Visser, Ben Westmore and two anonymous referees for helpful comments and suggestions. The views expressed in this paper are those of the authors and cannot be attributed to the IMF, the OECD or their member countries or to DNB. Also the authors are responsible for any remaining errors.
Martins was Secretary of State of Employment in the Government of Portugal in 2011-2013 and was co-responsible for designing and implementing the 2012 labour market reform mentioned in the paper.

Funding

Martins thanks support from the European Union (grant VS/2016/0340).

Availability of data and materials

Not applicable.

Competing interests

The IZA Journal of Labor Policy is committed to the IZA Guiding Principles of Research Integrity. The authors declare that they have observed these principles.

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1 Endnotes

[i] Several studies have attempted to shed light on one or more of these factors, including coordination (OECD, 2004; 2006, 2018).
[ii] See Blanchard et al. (2014) for an overview of labour market reforms in IMF programs and Van Ours et al. (2016) for a description of the Greek case.
[iii] Readers interested in a comparison of collective bargaining systems across all OECD countries are referred to OECD (2017).
[iv] According to Visser and Hemerijck (1998), what characterises the Dutch corporatist tradition is precisely this gradual experimentation with institutional rules and practices, which they dub "policy learning". In their view, this policy approach was an important factor behind the strong employment performance at the turn of millennium. Visser et al. (2001) go even further by saying that the Dutch experience "shows that a rescue of the European social model is possible, even under the conditions of a more restrictive macro-economic policy environment, and increased pressure on firms to adapt to external market pressures."
[v] Whether or not this increased space is used in practice and results in more differentiated working conditions across workers is a different and more complex question that we do not discuss here. For instance, the legal possibility of firm-level agreements itself can influence the content of sectoral agreements even in the absence of actual firm-level agreements.
[vi] This is discussed in more detail in Section 5.
[vii] The metal industry is somewhat of an exception (Visser, 2016a). Trade unions retain a relatively strong presence in this sector also at the local level, which makes two-tier bargaining a possibility in principle.
[viii] See Financieel Dagblad, Werkgever gaat zieltjes winnen voor leeglopende vakbonden, 1 October 2018.
[ix] Based on a 2014 survey, Van Lier & Zielschot (2014) report that 52% of agreements are of a *minimum* nature, where deviations are only possible to the upside. In 28% of cases, deviations are possible in both directions. In 7% of CAs, deviations are not allowed (the remaining CAs do not stipulate whether deviations are allowed).
[x] Before the global financial crisis, only around 50-75 of the 300,000 firms in Portugal concluded or renewed a firm- or holding-level collective agreement in any given year. The number of these agreements has remained largely unchanged over the financial and sovereign debt crises. One should also note that, on top of these formal agreements, there is an additional number of informal firm-level agreements, signed with worker councils of large firms. While not qualifying as de jure collective agreements, these correspond as de facto agreements between firms and workers' representatives, setting a large number of work conditions that are respected by both employers and employees.
[xi] The state traditionally exerts a strong role in the regulation of the labour market, similarly to the French model. This has limited the scope for self-regulation by the social partners (see Traxler, 2003; Molina, 2014; Aghion *et al.*, 2011). For instance, the labour code (the collection of all applicable labour law) includes 560 articles that regulate virtually all aspects of the labour relationship. Moreover, the minimum wage is relatively high compared to the median wage, in particular since 2006, reaching Kaitz ratios of around 60% (close to those of France and Slovenia, the highest in Europe).
[xii] At least in part this is a legacy from the 1928-1974 dictatorship which sought to compensate for the repression of independent trade unions and social dialogue through legal rules.
[xiii] This may be an underestimation, as there is an unknown number of informal firm-level agreements established with worker councils – these are not formally collective agreements but in practice play the same role (Palma Ramalho 2009).
[xiv] A mild version of this route would be to replace the veto of sector unions by a criterion that agreements will need to be confirmed by a referendum among the workforce.
[xv] Extensions may further be used as an instrument to internalise any possible public good characteristics of collective agreements, such as sectoral training and mobility schemes that are funded by those subject to collective agreements (De Ridder and Euwals, 2016). They may also serve to disseminate what may be considered as best practices within in a sector in different worker-related areas, such as personnel management, training, health and safety, technology usage, insurance, retirement packages, or performance-related incentives. Furthermore, in the absence of a national minimum wage, they may help prevent a downward spiral of wages and thereby an erosion of domestic demand. In the aftermath of the 1930s, this was a key motivation of the 1937 Introduction of Extension Act in the Netherlands (Zalm, 1992; Visser, 2018).

[xvi] Another route is to make membership of an employer organisation compulsory or strengthen incentives to join. Employer associations typically deliver several services to their members. This would effectively suggest a move towards the Scandinavian system of collective bargaining.
[xvii] Germany recently abandoned its 50% representativeness criterion in favour of a test of public interest. The former was increasingly seen as an obstacle to extensions while a test of public interest provides more flexibility. This change was intended to promote the use of extensions.
[xviii] This was calculated by the authors based on the *Quadros de Pessoal* (2010) data set as the percentage of private sector workers in affiliated firms. In contrast, in Visser's ICTWSS database, employer density was estimated at 65% in 2008, while Traxler (2000) reports a figure of 34% for 1995.
[xix] This happened after some cases where unions were not deemed independent of the employer (sometimes established on the same day as the signatory date of the agreement). In response, the rules for what constitutes an independent union were strengthened and social partners were made the prime responsible for judging the need for dispensation (see Rojer & Van der Veldt, 2010; Stege, 2011).
[xx] Addison *et al.* (2012) show that orientation tends to be partial in the sense that it leads to lower wages than in firms that are directly covered but higher than in firms that do not orientate their pay practices to the collectively negotiated wage agreements.
[xxi] These are the VVD (People's Party for Freedom and Democracy), who is currently the largest, and the PVV. Together they hold 53 of 150 seats in Parliament.
[xxii] In June 2017, a further reform in Portugal eliminated completely the representativeness requirement. It also required extensions to be issued no later than seven weeks after the request by the subscribing partners.
[xxiii] We thank Jelle Visser for this suggestion.
[xxiv] Employers might anticipate that they are unlikely to win major concessions in economic downturns, leading to greater smoothing over the business cycle and more wage moderation during economic booms. However, this may not be enough to cope with unexpectedly large adverse shocks such as the recent global financial and sovereign debt crises.
[xxv] When social partners have a shared understanding of the negative employment consequences, such risks can be alleviated with coordinated support for wage moderation. This underlines the importance of coordination and cooperation, which is discussed in Section 5 below.
[xxvi] It is also noteworthy that until 2003 collective agreements could only be terminated by agreement between the two parties. Only following a reform introduced in that year was it possible to terminate agreements unilaterally. These earlier domestically-led reforms have also created continuing discontentment with the political parties in the (extreme or radical) left, which represent about 15% of the electorate. These parties, as well as the largest trade union confederation, are still demanding the reversion of those earlier reforms, as they think this would strengthen the bargaining power of workers/unions, and always raise this issue in discussions of collective bargaining themes.
[xxvii] This agreement went much further than most tripartite agreements, however, since it was about the adjustment of the economy to the global financial and Eurozone debt crises and also included areas such as public administration and taxation.
[xxviii] Some scholars trace the emergence of trust between social partners in the Netherlands back to the culture of cooperation and trust that emerged in the late Middle Ages between the various provinces (Prak and Luiten van Zanden, 2013) and the joint fight of the Dutch against the water (Den Butter and Mosch, 2003).
[xxix] See Gould and Hijzen (2016) for a recent analysis of the determinants of trust and social capital with a specific focus on inequality.
[xxx] For instance, Martins (2017) finds that one of the measures included in the labour market reform of 2012 (and in the tripartite agreement of the same year) – greater flexibility in the setting of overtime pay premiums – promoted greater employment resilience. Martins (2018a) presents evidence that increased employee representation in firms in Portugal has a positive causal impact on firm performance, in particular through stronger investments in worker training. See also Martins (2018b) for an analysis of monopsony power and its wage effects in the case of Portugal.
[xxxi] This is also the approach taken by the new Dutch trade union 'Alternative for Trade Union' ('Alternatief voor vakbond', avv). In their so-called 'support model' of representation all stakeholders – whether members or not – can take part in (online) consultations on ongoing negotiations.
[xxxii] In the Netherlands, the low union density is seen as one of the reasons that unions in certain non-tradable sectors have recently had to agree to less generous working conditions (van der Valk, 2015).